GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4853
ANSWERED ON:24.08.2001
AUDIT OF BANKS
SHEESH RAM SINGH RAVI

Will the Minister of FINANCE be pleased to state:

(a) whether any prescribed procedure has been specified to appoint an auditor for the bank (Public and Private Sector);

(b) if so, the details thereof;

(c) whether any penalty has also been prescribed for the auditors for deficiency in audit of these banks;

(d) if so, the details thereof; and

(e) the action against such auditors/penalty imposed during the last three years ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHIB VIKHE PATIL)

(a) & (b):- Reserve Bank of India (RBI) has prescribed detailed procedure for appointment of statutory auditors for public sector banks as well as private sector banks. RBI has constituted Standing Advisory Committee on Banks Audit (SAC) as well as Sub-Committee(Audit) of Board for Financial Supervision, for the purpose of making suitable recommendations for appointments of statutory auditors for public sector banks. The eligibility norms for empanelment as Statutory Central Auditors (SCAs) of Public Sector Banks are prescribed by the Sub-Committee (Audit) of the Board for Financial Supervision and advised to the Institute of Chartered Accountants of India (ICAI), who publish these in their journal to enable the Chartered Accountants to make an application to the Office of the Comptroller & Auditor General of India (C & AG) for empanelment.Based on the applications received by the Office of C & AG, they furnish to RBI a list of eligible firms fulfilling the prescribed norms.Thereafter, RBI scrutinizes the said list and prepares a panel of firms eligible for appointment as SCAs.This panel is placed before the SAC for consideration and recommendation. SAC`s recommendations are examined by RBI and thereafter allotment of auditors for public sector banks are made by the competent authority.
As regards appointment of statutory auditors for the branches of public sector banks every year, a panel is received by RBI from the ICAI, which is examined and the appointments are finalized after approval by the SAC.

As regards appointment of statutory auditors for private sector banks, a panel of three audit firms is submitted by each of these banks to RBI, who examine the panel and convey approval for such appointments in terms of section 30(1A) of the Banking Regulation Act, 1949.

(c) & (d):- RBI has reported that no specific penalty has been prescribed under the Banking Regulation Act, 1949 for the statutory auditors for their wrong audit. However, wherever instances of negligence on the part of the statutory auditors comes to/brought to RBI`s notice, the full details thereof are collected from the concerned banks and the matter is considered by the Sub-Committee (Audit) of Board of Financial Supervision and, wherever necessary, penalty of denial of statutory audit is awarded to the erring audit firms. In terms of Section 21 of the Chartered Accountants Act, 1949, the ICAI is the competent authority to take action against the erring auditors and are advised to report about the lapses of the auditors to it so as to enable it to take appropriate action against the erring auditors.

(e):- RBI has reported that during the recent past, in the case of statutory auditors of a private sector bank, they have denied statutory audit of commercial banks to them for a period of 4 years for their lapses.